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BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 97-170-E - ORDER NO. 97-478

JUNE 5, 1997

IN RE: Application of Carolina Power & Light Company for Authority to Issue Additional Securities (Common Stock).	)	ORDER GRANTING AUTHORITY TO ISSUE ADDITIONAL SECURITIES (COMMON STOCK) IN CONNECTION WITH THE MERGER OF KNOWLEDGE BUILDERS, INC. INTO CAROCAPITAL, INC.
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This matter comes before the Public Service Commission of South Carolina (the Commission) upon Application of Carolina Power & Light Company (Company), filed April 29, 1997 requesting authority to issue up to 1,000,000 additional shares of Common Stock to be used to acquire an energy services company through CaroCapital, Inc. (CaroCapital), a wholly owned subsidiary of the Company.

**FINDINGS OF FACT**

1. The Company's correct name and post office address are Carolina Power & Light Company, Post Office Box 1551, Raleigh, North Carolina 27602. The names and post office address of its attorneys are Patricia Kornegay-Timmons and Len S. Anthony, Post Office Box 1551, Raleigh, North Carolina 27602. The Company is a corporation organized and existing under the laws of the State of North Carolina, with its principal office at 411 Fayetteville Street, Raleigh, North Carolina 27601, where it is engaged in the

business of generating, transmitting, delivering and furnishing electricity to the public for compensation.

2. The Company's capital stock outstanding at December 31, 1996 consisted of Common Stock with a stated value of \$1,366,100,000 and Preferred Stock having a stated value of \$143,801,000. As of December 31, 1996, the retained earnings of the Company were \$1,503,658,000.

The Company's existing long-term debt at December 31, 1996, amounted to principal amounts of \$1,621,130,000 in First Mortgage Bonds and \$1,029,498,000 in other long-term debt, including \$350,000,000 of commercial paper reclassified as long-term debt for financial reporting purposes. The First Mortgage Bonds were issued under and pursuant to an Indenture of Trust dated as of May 1, 1940, duly executed by the Company to The Bank of New York (formerly Irving Trust Company), as Corporate Trustee, and Frederick G. Herbst, as Individual Trustee, succeeded by W.T. Cunningham, who presently is acting as Individual Trustee, as supplemented by sixty-three Supplemental Indentures.

3. Pursuant to the provisions of its charter and for the purposes hereinafter stated, the Company proposes to issue up to 1,000,000 additional shares of its Common Stock, without par value, to CaroCapital in connection with CaroCapital's acquisition of the remaining sixty percent (60%) interest in Knowledge Builders, Inc., an energy-management software and control systems company (KBI), and CaroCapital's performance of its obligations under the related merger documents. (CaroCapital currently owns

forty percent (40%) equity interest in KBI.) The merger is being accomplished via CaroCapital in order to facilitate the conduct of this energy service business on a national scale, and to prevent allegations of cross subsidization. Consummation of the transaction is subject to the approval of the Commission.

4. Under the proposed terms of the merger of KBI into CaroCapital, the stock of KBI will be converted into shares of Common Stock of the Company according to a market value formula. The base purchase price of KBI, payable to the three founders of KBI in unregistered restricted shares of the Company's Common Stock, is \$19.8 million, with additional payments based on the results of operations of CaroCapital (also payable in the Company's Common Stock according to a market value formula.) As part of the merger compensation, CaroCapital will pay to key employees of KBI, in a combination of cash and shares of the Company's Common Stock, an aggregate amount of approximately \$3.8 million for the following purposes: (i) to settle certain KBI stock options held by those key employees and (ii) to provide long-term incentive compensation to certain key employees. For purposes of this transaction, the value of a share of the Company's Common Stock is \$34.04, the average of the Stock's closing price for the ten trading days immediately prior to May 6, 1997. Other incentive payments may be earned by the KBI founders based on CaroCapital's results of operations in 1999 through 2001. If earned, this additional consideration will be payable in the future in a combination of cash and Company Common Stock

(valued according to a market value formula).

5. The Company's capital structure is such that it is appropriate and reasonable to issue up to 1,000,000 additional shares of Common Stock. The Company currently has over 166,000,000 shares of Common Stock outstanding or reserved for issuance, thus the issuance of an additional 1,000,000 shares will not materially dilute its equity position or impact its capital structure.

6. The Company estimates that it will incur expenses of approximately \$375.00 in connection with the issuance of up to 1,000,000 additional shares of Common Stock.

7. The securities will be issued by means of a negotiated transaction. Information regarding the price of the securities to be issued is provided in paragraph 4 above.

8. The proposed issuance of stock will not generate any proceeds to the Company.

9. The merger of this energy services business into the Company via CaroCapital will benefit the Company's customers and improve the Company's competitive position in the changing electric industry. Following the merger, the Company will be able to offer its customers reliable, high-quality, cost-effective electricity and the management and control tools to utilize electricity and all other forms of energy in the most cost-effective and efficient manner possible. The "bundling" of these numerous services and the ability to "one-stop shop" will simplify the business operations of the Company's customers and

improve their operations. It will also diversify the service offerings and revenue sources of the Company which will make it more competitive as the restructuring of the electric industry progresses.

10. In compliance with Order No. 91-72 issued in Docket No. 91-032-E, the Company provided the following information:

- (a) The Company's Consolidated Financial Statements as of December 31, 1996, and pro forma statements showing the impact of the proposed issuance of additional shares of Common Stock of the Company were attached to the Company's Application as Exhibit A.
- (b) No funds will be generated to the Company as a result of the proposed issuance of stock; however, as discussed in paragraph 9 of the Application, the stock issuance will benefit both the Company and its customers.
- (c) If the authority to issue securities in connection with the CaroCapital, Inc.'s acquisition of Knowledge Builders, Inc. is delayed or not approved, the Company's ability to compete in the energy services business will be impaired.
- (d) The information regarding the anticipated market price per share at the time of issuance is provided in Paragraph 4 of the Application. The pro forma book value per share at the time of issuance would be approximately \$18.84.
- (e) Information regarding the expected costs and benefits of the proposed stock issuance is provided in paragraphs 6 and 9, respectively, of the Application.
- (f) The Company's Pro Forma Capital Structure showing the impact of the proposed stock issuance was attached to the Company's Application as Exhibit B. That impact is minimal.

CONCLUSIONS OF LAW

From a review and study of the Application, its supporting data and other information in the Commission's files, the Commission finds that the transaction or transactions herein proposed:

- (i) Are for a lawful object within the corporate purposes of the Company;
- (ii) Are compatible with the public interest;
- (iii) Are necessary and appropriate for and consistent with the proper performance by the Company of its service to the public as a utility;
- (iv) Will not impair the Company's ability to perform its public service; and
- (v) Are reasonably necessary and appropriate to provide adequate funds for such corporate purposes.

IT IS, THEREFORE, ORDERED AS FOLLOWS:

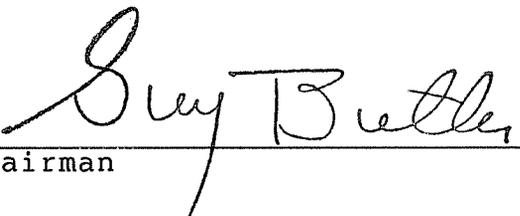
1. That Carolina Power & Light Company hereby is authorized, empowered and permitted (i) to issue additional securities in the form of Common Stock as described in the Application and (ii) to execute, deliver and carry out such instruments, documents and agreements as shall be necessary or appropriate in order to effectuate the transaction contemplated by the merger, as substantially described in the Application. It is further ordered that the terms and conditions of the merger as substantially

described in the Application, are hereby approved. Approval of this Application does not bind the Commission as to the ratemaking treatment of this issuance.

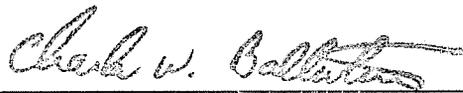
2. This Order shall not, in any way, affect or limit the right, duty or jurisdiction of the Commission to further investigate and order revisions, modifications, or changes with respect to any provision of this Order in accordance with the law.

3. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)